

CONTRACT #4
RFS # 309.01-025

Department of the Treasury

VENDOR:
The Putnam Advisory
Company, LLC

REQUEST: NON-COMPETITIVE AMENDMENT

RECEIVED

SEP 27 2005

FISCAL REVIEW


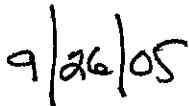
APPROVED

Commissioner of Finance & Administration

Date:

EACH REQUEST ITEM BELOW MUST BE DETAILED OR ADDRESSED AS REQUIRED.

1) RFS #	309.01-025	
2) State Agency Name :	Tennessee Treasury Department	
EXISTING CONTRACT INFORMATION		
3) Service Caption :	The Contractor supervises and manages the Tennessee Consolidated Retirement System's EAFE equity investment portfolio.	
4) Contractor :	The Putnam Advisory Company, LLC	
5) Contract #	FA-01-14304	
6) Contract Start Date :	November 1, 2000	
7) <u>Current</u> Contract End Date IF <u>all</u> Options to Extend the Contract are Exercised :	October 31, 2005	
8) <u>Current</u> Total Maximum Cost IF <u>all</u> Options to Extend the Contract are Exercised :	\$9,667,600. The fees will depend on the level of assets managed by the contractor and will be paid from the investment earnings of the Retirement System.	
PROPOSED AMENDMENT INFORMATION		
9) <u>Proposed</u> Amendment #	02	
10) <u>Proposed</u> Amendment Effective Date : (attached explanation required if date is < 60 days after F&A receipt)	November 1, 2005	
11) <u>Proposed</u> Contract End Date IF <u>all</u> Options to Extend the Contract are Exercised :	October 31, 2008	
12) <u>Proposed</u> Total Maximum Cost IF <u>all</u> Options to Extend the Contract are Exercised :	\$16,657,869. The fees will depend on the level of assets managed by the contractor and will be paid from the investment earnings of the Retirement System.	
13) Approval Criteria : (select one)	<input checked="" type="checkbox"/> use of Non-Competitive Negotiation is in the best interest of the state <input type="checkbox"/> only one uniquely qualified service provider able to provide the service	

14) Description of the Proposed Amendment Effects & Any Additional Service :		
See attached memorandum dated September 23, 2005.		
15) Explanation of Need for the Proposed Amendment :		
16) Name & Address of Contractor's Current Principal Owner(s) : (<u>not</u> required if proposed contractor is a state education institution)		
17) Documentation of Office for Information Resources Endorsement : (required <u>only</u> if the subject service involves information technology)		
select one:	<input type="checkbox"/> Documentation Not Applicable to this Request	<input type="checkbox"/> Documentation Attached to this Request
18) Documentation of Department of Personnel Endorsement : (required <u>only</u> if the subject service involves training for state employees)		
select one:	<input type="checkbox"/> Documentation Not Applicable to this Request	<input type="checkbox"/> Documentation Attached to this Request
19) Documentation of State Architect Endorsement : (required <u>only</u> if the subject service involves construction or real property related services)		
select one:	<input type="checkbox"/> Documentation Not Applicable to this Request	<input type="checkbox"/> Documentation Attached to this Request
20) Description of Procuring Agency Efforts to Identify Reasonable, Competitive, Procurement Alternatives :		
21) Justification for the Proposed Non-Competitive Amendment :		
REQUESTING AGENCY HEAD SIGNATURE & DATE : (<u>must</u> be signed & dated by the <u>ACTUAL</u> procuring agency head as detailed on the Signature Certification on file with OCR— signature by an authorized signatory will be accepted only in documented exigent circumstances)		
<div style="display: flex; justify-content: space-between; align-items: flex-end;"> <div style="text-align: center;">  </div> <div style="text-align: center;">  </div> </div>		
Agency Head Signature		Date

STATE OF TENNESSEE



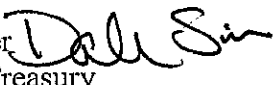
DALE SIMS
STATE TREASURER

TREASURY DEPARTMENT
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0225

JANICE CUNNINGHAM
EXECUTIVE ASSISTANT

MEMORANDUM

TO: The Honorable M. D. Goetz, Jr., Commissioner
Department of Finance and Administration

FROM: Dale Sims, Treasurer 
Department of the Treasury

DATE: September 23, 2005

RE: *Noncompetitive Amendment Request – External International Investment
Services Contract Between the Tennessee Consolidated Retirement System
and The Putnam Advisory Company, LLC*

BACKGROUND

The Tennessee General Assembly enacted Tennessee Code Annotated, Section 8-37-114 in 1995. This law authorized the Tennessee Consolidated Retirement System to utilize external investment managers for the investment of its international equity portfolios. Section 8-37-114 further provided that any contract for such investment management services shall be procured in the manner prescribed by the Board of Trustees of the Retirement System.

Pursuant to this law, the Retirement System engaged in a competitive procurement process approved by the Board of Trustees to contract with the requisite external investment manager companies. This procurement process resulted in the selection of the current five external investment managers. The external investment managers are (1) J.P. Morgan Investment Management, Inc.; (2) Marathon Asset Management LLP; (3) SG Yamaichi Asset Management Company, Ltd.; (4) Walter Scott & Partners Limited and (5) The Putnam Advisory Company, LLC. J.P. Morgan and SG Yamaichi supervise and manage the Retirement System's Pacific Basin equity portfolio, Marathon and Walter Scott invest and otherwise manage the Retirement System's international European equity portfolio, and Putnam supervises and manages the Retirement System's EAFE (Europe, Australia and Far East) equity investment portfolio.

The original term of the current contracts was for a three-year period from November 1, 2000 through October 31, 2003 with the right to extend the contacts for an additional

two-year period, i.e., through October 31, 2005. However, on October 7, 2003, the Retirement System requested approval to extend the contracts with J.P. Morgan, Marathon, SG Yamaichi and Walter Scott & Partners Limited for an additional five (5) year period, i.e., through October 31, 2008 in order to take advantage of a favorable fee arrangement the Retirement System was able to renegotiate with the companies. On October 23, 2003, both your office and the Fiscal Review Committee of the General Assembly approved the Retirement System's request.

Even though the Retirement System was able to procure a favorable fee arrangement with Putnam for the renewal period, the System's request inadvertently failed to include Putnam since the Retirement System had already entered into a contract amendment with Putnam in July 2003, which extended the contract through October 31, 2005. The fee payable to Putnam prior to the 2003 amendment was 30 basis points on the net asset value of the TCRS assets under management by Putnam. The Retirement System successfully reduced the fee to 18 basis points if the net asset value is \$1 billion or less, and 16 basis points if the net asset value is over \$1 billion. Putnam has recently agreed to reduce the fee further should we enter into the contract amendment at issue. The fee would be 18 basis points if the net asset value is \$1 billion or less, 16 basis points if the net asset value is over \$1 billion, but less than \$1.5 billion and 15 basis points if the net asset value is \$1.5 billion or more. In addition, the contract provides that if Putnam enters into a fee schedule that is lower than the above fee for its other similar ERISA or public retirement fund clients, the fees will be deemed automatically amended to substitute said reduced fees in place of the fees provided above for the remainder of the contract.

The Retirement System's internal investment staff receives a quarterly investment performance report on Putnam and the other external investment managers from an independent investment consultant. This report compares the manager's performance to peers and to benchmarks. The report contains detailed information that explains performance as it relates to stock selection, sector selection, country selection and currency. The Retirement System's internal investment staff continually monitors each manager on performance and adherence to investment style. Investment staff are pleased with the investment performance and strategy employed by Putnam.

On an on-going basis, the Department evaluates performance and other factors to determine whether Putnam's contract should be terminated. The contract contains a thirty-day termination for convenience clause, which allows staff to terminate the contract for unsatisfactory performance or for concern in turnover of the firm's investment staff. In addition, the contract provides that the Retirement System may, at its sole discretion, transfer or remove assets under Putnam's management.

I.

DESCRIPTION OF THE PROPOSED AMENDMENT EFFECTS AND ANY ADDITIONAL SERVICE

The proposed amendment would not include additional services. Instead, the Retirement System would like to take advantage the favorable fee arrangement it successfully renegotiated with Putnam for an entire five-year period as it did with its other external

investment managers. Specifically, Putnam reduced its fee from 30 basis points to 18 basis points if the net asset value is \$1 billion or less, and 16 basis points if the net asset value is over \$1 billion. Putnam has recently agreed to reduce the fee further should we enter into the contract amendment at issue. The fee would be 18 basis points if the net asset value is \$1 billion or less, 16 basis points if the net asset value is over \$1 billion, but less than \$1.5 billion and 15 basis points if the net asset value is \$1.5 billion or more. To do so, however, the contract would need to be amended to permit an eight-year contract, instead of the current five years. Further, it would make sense and be more practical for all of the external investment manager contracts to be on the same term and be competitively bid at the same time. This would allow the Retirement System to adequately evaluate all companies that can provide external investment management services, which would result in the procurement of the best companies at the most favorable price to the Retirement System.

II.

EXPLANATION OF NEED FOR THE PROPOSED AMENDMENT

The Department would like to take advantage of the favorable fee arrangement for an additional three years since the State may not be able to negotiate such an arrangement in the future. All contracts with the five international investment managers would then terminate on October 31, 2008. In late 2007 or early 2008, the Department intends to perform a comprehensive analysis of the structure of the international portfolio and select managers through a competitive process for a five-year period beginning November 1, 2008.

III.

NAME AND ADDRESS OF CONTRACTOR'S PRINCIPAL OWNER(S)

The Putnam Advisory Company, LLC is a limited liability company, which is a wholly owned subsidiary of Marsh & McLennan Companies, Inc. Marsh is a publicly traded company that is listed on the New York Stock Exchange and is owned by the numerous individuals and companies that have purchased its stock.

IV.

DOCUMENTATION OF OIR SUPPORT OF THE PROCUREMENT REQUEST (REQUIRED ONLY IF THE SUBJECT SERVICE INVOLVES INFORMATION TECHNOLOGY)

N/A

V.

DOCUMENTATION OF DOP SUPPORT OF THE PROCUREMENT REQUEST (REQUIRED ONLY IF THE SUBJECT SERVICE INVOLVES TRAINING FOR STATE EMPLOYEES)

N/A

VI.

**DOCUMENTATION OF STATE ARCHITECT SUPPORT OF THE
PROCUREMENT REQUEST (REQUIRED ONLY IF THE SUBJECT SERVICE
INVOLVES CONSTRUCTION OR REAL PROPERTY RELATED SERVICES)**

N/A

VII.

**DESCRIPTION OF PROCURING AGENCY EFFORTS TO IDENTIFY
REASONABLE, COMPETITIVE, PROCUREMENT ALTERNATIVES**

The Treasury Department merely desires to extend the contract term for an additional three-year period in order to take advantage of the favorable fee arrangement. The Department of Finance and Administration's rule 0620-3-3.07(5) provides that no contract term can exceed five years, unless a rule exception request is granted by the Commissioner of Finance and Administration. The Department has requested the rule exception to extend the contract at issue for the additional period (copy of approval request attached).

VIII.

**JUSTIFICATION FOR THE PROPOSED
NON-COMPETITIVE AMENDMENT**

The Department is not requesting that the contract be amended to add new additional services to the contract. Instead, the Department desires to take advantage of the favorable fee arrangement it successfully renegotiated with Putnam for an entire five-year period as it did with its other external investment managers. The Department would like to take advantage of the favorable fee arrangement for the entire five years since the State may not be able to negotiate such an arrangement in the future. To do so, however, the contract would need to be amended to permit an eight-year contract, instead of the current five years. Further, it would make sense and be more practical for all of the external investment manager contracts to be on the same term and be competitively bided at the same time. This would allow the Retirement System to adequately evaluate all companies that can provide external investment management services, which would result in the procurement of the best companies at the most favorable price to the Retirement System.

RULE EXCEPTION REQUEST

APPROVED

Commissioner of Finance & Administration

Date:

RFS #	309.01-025	STATE AGENCY:	Tennessee Treasury Department
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INFORMATION ABOUT THE EXCEPTION(S) REQUESTED

SUBJECT RULE NUMBER(S): 0620-3-3-.07(5)

DESCRIPTION OF EXCEPTION(S): The Department seeks a rule exception to permit an eight year contract.

JUSTIFICATION FOR EXCEPTIONS:

(compelling reasons for contracts rule exception; relevant background information; attach additional justification as necessary)

The General Assembly enacted T.C.A. § 8-37-114 in 1995. This law authorized the Tennessee Consolidated Retirement System ("TCRS") to utilize external investment managers for the investment of its international equity portfolios. This Section further provided that any contract for such investment management services shall be procured in the manner prescribed by the TCRS Board of Trustees.

Pursuant to this law, TCRS engaged in a competitive procurement process approved by the Board to contract with the requisite external investment manager companies. This procurement process resulted in the selection of the current five external investment managers. The external investment managers are (1) J.P. Morgan Investment Management, Inc.; (2) Marathon Asset Management LLP; (3) SG Yamaichi Asset Management Company, Ltd.; (4) Walter Scott & Partners Limited and (5) The Putnam Advisory Company, LLC. J.P. Morgan and SG Yamaichi supervise and manage TCRS's Pacific Basin equity portfolio, Marathon and Walter Scott invest and otherwise manage TCRS's international European equity portfolio, and Putnam supervises and manages TCRS's EAFE (Europe, Australia and Far East) equity investment portfolio.

The original term of the current contracts was for a three-year period from November 1, 2000 through October 31, 2003 with the right to extend the contracts for an additional two-year period, i.e., through October 31, 2005. However, on October 7, 2003, TCRS requested approval to extend the contracts with J.P. Morgan, Marathon, SG Yamaichi and Walter Scott & Partners Limited for an additional five-year period, i.e., through October 31, 2008 in order to take advantage of a favorable fee arrangement TCRS was able to renegotiate with the companies. On October 23, 2003, both your office and the Fiscal Review Committee of the General Assembly approved TCRS's request.

Even though TCRS was able to procure a favorable fee arrangement with Putnam for the renewal period, TCRS's request inadvertently failed to include Putnam since TCRS had already entered into a contract amendment with Putnam in July 2003, which extended the contract through October 31, 2005. The fee payable to Putnam prior to the 2003 amendment was 30 basis points on the net asset value of the TCRS assets under management by Putnam. TCRS successfully reduced the fee to 18 basis points if the net asset value is \$1 billion or less, and 16 basis points if the net asset value is over \$1 billion. Putnam has recently agreed to reduce the fee further should we enter into the contract amendment at issue. The fee would be 18 basis points if the net asset value is \$1 billion or less, 16 basis points if the net asset value is over \$1 billion, but less than \$1.5 billion and 15 basis points if the net asset value is \$1.5 billion or more. In addition, the contract provides that if Putnam enters into a fee schedule that is lower than the above fee for its other similar ERISA or public retirement fund clients, the fees will be deemed automatically amended to substitute said reduced fees in place of the fees provided above for the remainder of the contract.

TCRS would like to take advantage the favorable fee arrangement it successfully renegotiated with Putnam for an entire five-year period as it did with its other external investment managers. To do so, however, the contract would need to be amended to permit an eight-year contract, instead of the current five years. Further, it would make sense and be more practical for all of the external investment manager contracts to be on the same term and be competitively bid at the same time. This would allow TCRS to adequately evaluate all companies that can provide external investment management services, which would result in the procurement of the best companies at the most favorable price to TCRS.

TCRS's internal investment staff continually monitors each manager on performance and adherence to investment style. Investment staff are pleased with the investment performance and strategy employed by Putnam. However, staff would terminate a particular manager when objectives in the contract are not met. The contract contains a thirty-day termination for convenience clause, which allows staff to terminate the contract for unsatisfactory performance or for concern in turnover of the firm's investment staff. In addition, the contract provides that TCRS, at its sole discretion, transfer or remove assets under Putnam's management.

INFORMATION REGARDING THE APPLICABLE CONTRACT

DESCRIPTION OF SERVICE TO BE PROCURED:

The Putnam Advisory Company, LLC invests and otherwise manages the Tennessee Consolidated Retirement System's international EAFE equity investment portfolio.

BEGIN DATE: November 1, 2000

END DATE (including all options for term extension): October 31, 2008

MAXIMUM LIABILITY (including all options for term extension): \$16,657,869. The fees will depend on the level assets managed by the contractor and will be paid from the investment earnings of the Retirement System.

AGENCY HEAD SIGNATURE & DATE:

Dale Sims 9/26/05

PRINTED NAME, TITLE:

Dale Sims, State Treasurer

STATE OF TENNESSEE



DALE SIMS
STATE TREASURER

TREASURY DEPARTMENT
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0225

JANICE CUNNINGHAM
EXECUTIVE ASSISTANT

MEMORANDUM

TO: The Honorable M. D. Goetz, Jr., Commissioner
Department of Finance and Administration

FROM: Dale Sims, Treasurer *Dale Sims*
Department of the Treasury

DATE: September 23, 2005

RE: *Memorandum of Explanation for Submitting Noncompetitive Amendment
Request Less Than Sixty (60) Days Prior to Contract Amendment Start Date:
External International Investment Services Contract Between the Tennessee
Consolidated Retirement System and The Putnam Advisory Company, LLC*

The Tennessee General Assembly enacted Tennessee Code Annotated, Section 8-37-114 in 1995. This law authorized the Tennessee Consolidated Retirement System to utilize external investment managers for the investment of its international equity portfolios. Section 8-37-114 further provided that any contract for such investment management services shall be procured in the manner prescribed by the Board of Trustees of the Retirement System.

Pursuant to this law, the Retirement System engaged in a competitive procurement process approved by the Board of Trustees to contract with the requisite external investment manager companies. This procurement process resulted in the selection of the current five external investment managers. The external investment managers are (1) J.P. Morgan Investment Management, Inc.; (2) Marathon Asset Management LLP; (3) SG Yamaichi Asset Management Company, Ltd.; (4) Walter Scott & Partners Limited and (5) The Putnam Advisory Company, LLC. J.P. Morgan and SG Yamaichi supervise and manage the Retirement System's Pacific Basin equity portfolio, Marathon and Walter Scott invest and otherwise manage the Retirement System's international European equity portfolio, and Putnam supervises and manages the Retirement System's EAFE (Europe, Australia and Far East) equity investment portfolio.

The original term of the current contracts was for a three-year period from November 1, 2000 through October 31, 2003 with the right to extend the contacts for an additional two-year period, i.e., through October 31, 2005. However, on October 7, 2003, the Retirement System requested approval to extend the contracts with J.P. Morgan, Marathon, SG Yamaichi and Walter Scott & Partners Limited for an additional five (5)

September 22, 2005

Page 2

year period, i.e., through October 31, 2008 in order to take advantage of a favorable fee arrangement the Retirement System was able to renegotiate with the companies. On October 23, 2003, both your office and the Fiscal Review Committee of the General Assembly approved the Retirement System's request.

Even though the Retirement System was able to procure a favorable fee arrangement with Putnam for the renewal period, the System's request inadvertently failed to include Putnam since the Retirement System had already entered into a contract amendment with Putnam in July 2003, which extended the contract through October 31, 2005. Due to this oversight, staff was under the impression that all its external international investment manager contracts had been renewed through October 31, 2008. When this was brought to staff's attention, the Treasury Department entered into informal discussions with Putnam to determine whether Putnam would be willing to continue to provide the favorable fee arrangement through October 31, 2008, as did the other external investment managers. Once Putnam agreed to this potential proposal, the necessary non-competitive amendment documents were drafted.

While the timing is unfortunate, we believe this proposed amendment would be in the best interest of the State by providing continued quality investment performance at a favorable price. It would also allow for all contracts with the five international investment managers to expire on the same date (October 31, 2008), thereby allowing the Department to perform a comprehensive analysis of the structure of the international portfolio and to select managers based on the results of the analysis through a competitive process.

If you have any questions or need any additional information, please do not hesitate to contact me at 741-2956.

**AMENDMENT NUMBER 2
TO CONTRACT FA-01-14304-00
BETWEEN THE STATE OF TENNESSEE,
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
AND
THE PUTNAM ADVISORY COMPANY, LLC**

WHEREAS, the State of Tennessee, Tennessee Consolidated Retirement System, and The Putnam Advisory Company, LLC (formerly known as Putnam Advisory Company, Inc.) entered into Contract No. FA-01-14304-00 on November 1, 2000 for the provision of investment management services, and

WHEREAS, the said parties desire to amend said Contract in the manner described below,

NOW THEREFORE, the parties hereby amend said Contract as follows:

1. Section B is amended by deleting the same in its entirety and by substituting instead the following:

“B. CONTRACT TERM: This Contract shall be effective for the period commencing on November 1, 2000 and ending on October 31, 2008. The Retirement System shall have no obligation for services rendered by the Contractor which are not performed within the specified period.”

2. Section C.1 is amended by deleting the same in its entirety and by substituting instead the following:

“1. Maximum Liability. In no event shall the maximum liability of the Retirement System under this Contract exceed sixteen million six hundred fifty-seven thousand eight hundred sixty-nine dollars and no cents (\$16,657,869.00). The Payment Rates in Section C.3 shall constitute the entire compensation due the Contractor for the Service and all of the Contractor's obligations hereunder regardless of the difficulty, materials or equipment required. The Payment Rates include, but are not limited to, all applicable taxes, fees, overheads, profit, and all other direct and indirect costs incurred or to be incurred by the Contractor. The maximum liability represents available funds for payment to the Contractor and does not guarantee payment of any such funds to the Contractor under this

Contract. Instead, the Contractor shall be paid in accordance with Payment Rates detailed in Section C.3.”

3. Section C.3 is amended by deleting the same in its entirety and by substituting instead the following:

“**3. Payment Methodology.** The Contractor shall be compensated based on the Payment Rates herein in a total amount not to exceed the Contract Maximum Liability established in Section C.1. The Contractor shall be compensated based upon the following Payment Rates:

The Contractor shall be compensated on a quarterly basis, in arrears, based on the net asset value of the Account. The fee shall be calculated on a monthly basis equal to one-twelfth (1/12) of the respective annual basis point fee multiplied by the net asset value of the Account at month end. For services performed from November 1, 2000 through June 30, 2003, the annual basis point fee shall be thirty (30). For services performed from July 1, 2003 through October 31, 2005, the annual basis point fee shall be:

- (i) 18 if the net asset value of the Account is one billion dollars (\$1,000,000,000.00) or less; and
- (ii) 16 if the net asset value of the Account is over one billion dollars (\$1,000,000,000.00).

For services performed from November 1, 2005 through October 31, 2008, the annual basis point fee shall be:

- (i) 18 if the net asset value of the Account is one billion dollars (\$1,000,000,000.00) or less;
- (ii) 16 if the net asset value of the Account is over one billion dollars (\$1,000,000,000.00), but less than one billion five hundred million dollars (\$1,500,000,000); and
- (iii) 15 if the net asset value of the Account is one billion five hundred million dollars (\$1,500,000,000) or more.

The net asset value of the securities held in the Account shall be determined solely by the Retirement System. Fees shall not be paid on those assets invested in cash or cash equivalents when such represents more than fifteen percent (15%) of the net asset value of the Account at each month's end."

4. Appendix 2 to Exhibit A, attached to the contract and incorporated therein by reference, is amended by deleting the same in its entirety and by substituting instead the new Appendix 2, which is attached hereto and incorporated herein by reference.

5. Exhibit B, attached to the Contract and incorporated therein by reference, is amended by deleting the same in its entirety and by substituting instead the new Exhibit B which is attached hereto and incorporated herein by reference.

6. Exhibit F, attached to the Contract and incorporated therein by reference, is amended by deleting the same in its entirety and by substituting instead the new Exhibit F which is attached hereto and incorporated herein by reference.

7. Exhibit G, attached to the Contract and incorporated therein by reference, is amended by deleting the same in its entirety and by substituting instead the new Exhibit G which is attached hereto and incorporated herein by reference.

8. The other terms and provisions not amended hereby shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have by their duly authorized representatives set their signatures.

THE PUTNAM ADVISORY COMPANY, LLC

BY: _____
(Signature)

Date

(Typed or Printed Name and Title)

STATE OF TENNESSEE
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

BY: _____
Dale Sims, State Treasurer and Chair
of the Board of Trustees of the Tennessee
Consolidated Retirement System
_____ Date

APPROVED:
STATE OF TENNESSEE
DEPARTMENT OF FINANCE AND ADMINISTRATION

BY: _____
M. D. Goetz, Jr., Commissioner
_____ Date

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

BY: _____
John G. Morgan, Comptroller
_____ Date

APPENDIX 2 TO EXHIBIT A

Worldwide leader in securities processing

ACCOUNT NUMBER: 005513429

ACCOUNT NAME: TCRS - PUTMAN STRUCTURED EQUITY

DESCRIPTION	BOOK VALUE LOCAL/USD	MARKET VALUE LOCAL/USD	ACCRUED INCOME LOCAL/USD	USD UNREALIZED GAIN/LOSS DUE TO MARKET/CURRENCY TOTAL	MARKET VALUE % OF COUNTRY PORTFOLIO
COUNTRY: AUSTRALIA (AUD)					
FX RATE: 1.31839200					
RETAILING	4,279,215.90	4,889,842.62		463,160.21	
	3,204,665.32	3,708,944.40		41,118.87	6.43%
				504,279.08	0.28%
BUILDING	1,560,773.05	3,865,504.37		1,748,138.13	
	1,100,968.26	2,931,984.09		82,877.70	5.08%
				1,831,015.83	0.23%
BUSINESS PRODUCTS & SERVICES	1,336,466.92	1,872,429.00		406,527.10	
	996,736.37	1,420,236.92		16,973.45	2.46%
				423,500.55	0.11%
METALS & MINING	4,323,791.03	9,043,213.20	81,532.17	3,579,680.53	
	2,892,228.84	6,859,274.93	61,842.13	387,365.56	11.88%
				3,967,046.09	0.53%
RAILROAD EQUIPMENT	2,096,363.37	1,754,165.40	51,593.10	(259,557.07)	
	1,213,085.34	1,330,534.01	39,133.35	377,005.74	2.30%
				117,448.67	0.10%
BANKS & OTHER FINANCIAL SERVICES	42,842,250.72	54,678,603.34	136,308.28	8,977,870.48	
	31,600,585.05	41,473,706.85	103,389.81	895,251.32	71.85%
				9,873,121.80	3.19%
TOTAL:AUSTRALIA (AUD)					
	56,438,860.99	76,103,757.93	269,433.55	14,915,819.38	
	41,008,269.18	57,724,681.20	204,365.29	1,800,592.64	100.00%
				16,716,412.02	4.43%
COUNTRY: BELGIUM (EUR)					
FX RATE: 0.82843200					
ELECTRICAL EQUIPMENT & ELECTRONICS	291,630.42	286,006.35	24,326.25	(6,788.81)	
	358,398.16	345,238.17	29,364.21	(6,371.18)	3.14%
				(13,159.99)	0.03%
UTILITIES - MISCELLANEOUS			90,274.25		
			108,970.02		0.00%
					0.00%
BANKS & OTHER FINANCIAL SERVICES	6,996,493.54	8,823,920.59	40,708.67	2,205,886.60	
	8,611,860.57	10,651,351.72	49,139.43	(166,395.45)	96.86%
				2,039,491.15	0.82%
TOTAL:BELGIUM (EUR)					
	7,288,123.96	9,109,926.94	155,309.17	2,199,097.79	
	8,970,258.73	10,996,589.89	187,473.66	(172,766.63)	100.00%
				2,026,331.16	0.84%

**SUMMARY OF INVESTMENTS BY
COUNTRY/ASSET CLASS - Unreconciled**
FOR COMPOSITE GROUP 005513429

CLOSE OF DAY: 23-Sep-2005

Worldwide leader in securities processing

ACCOUNT NUMBER: 005513429

ACCOUNT NAME: TCRS - PUTMAN STRUCTURED EQUITY

DESCRIPTION	BOOK VALUE LOCAL/USD	MARKET VALUE LOCAL/USD	ACCRUED INCOME LOCAL/USD	USD UNREALIZED GAIN/LOSS DUE TO MARKET/CURRENCY TOTAL	MARKET VALUE % OF COUNTRY PORTFOLIO
COUNTRY: CANADA (CAD)					
FX RATE: 1.17290000					
OIL & COAL	1,723,113.52	3,837,600.00	6,625.39	1,802,784.96	
	1,368,199.13	3,271,890.19	5,648.73	100,906.10	40.86%
				1,903,691.06	0.25%
BANKS & OTHER FINANCIAL SERVICES	5,232,296.93	5,554,753.50	25,738.46	274,922.47	
	4,311,798.09	4,735,913.97	21,944.28	149,193.41	59.14%
				424,115.88	0.36%
TOTAL:CANADA (CAD)	6,955,410.45	9,392,353.50	32,363.85	2,077,707.43	
	5,679,997.22	8,007,804.16	27,593.01	250,099.51	100.00%
				2,327,806.94	0.62%
COUNTRY: DENMARK (DKK)					
FX RATE: 6.18130000					
UTILITIES - TELECOMMUNICATIONS	19,463,080.66	28,089,750.00	119,681.25	1,395,607.61	
	3,416,570.40	4,544,311.07	19,361.82	(267,866.94)	32.92%
				1,127,740.67	0.35%
BANKS & OTHER FINANCIAL SERVICES	41,716,626.15	57,237,200.00	24,628.50	2,510,891.54	
	6,934,114.28	9,259,735.01	3,984.36	(185,270.81)	67.08%
				2,325,620.73	0.71%
TOTAL:DENMARK (DKK)	61,179,706.81	85,326,950.00	144,309.75	3,906,499.15	
	10,350,684.68	13,804,046.08	23,346.18	(453,137.75)	100.00%
				3,453,361.40	1.06%
COUNTRY: EURODOLLAR MARKET (EUR)					
FX RATE: 0.82843200					
BANKS & OTHER FINANCIAL SERVICES	3,372,149.72	2,978,096.84	3,734.12	(475,661.10)	
	4,202,633.97	3,594,859.74	4,507.46	(132,113.13)	100.00%
				(607,774.23)	0.28%
TOTAL:EURODOLLAR MARKET (EUR)	3,372,149.72	2,978,096.84	3,734.12	(475,661.10)	
	4,202,633.97	3,594,859.74	4,507.46	(132,113.13)	100.00%
				(607,774.23)	0.28%
COUNTRY: FINLAND (EUR)					
FX RATE: 0.82843200					
BUSINESS PRODUCTS & SERVICES	1,707,734.67	2,855,354.00		1,385,290.92	
	2,074,496.48	3,446,696.90		(13,090.50)	23.33%
				1,372,200.42	0.26%
UTILITIES - TELECOMMUNICATIONS	8,872,641.42	9,381,020.38		613,664.08	
	9,782,050.90	11,323,826.70		928,111.72	76.67%
				1,541,775.80	0.87%
TOTAL:FINLAND (EUR)	10,580,376.09	12,236,374.38		1,998,955.00	
	11,856,547.38	14,770,523.60		915,021.22	100.00%
				2,913,976.22	1.13%

Worldwide leader in securities processing

ACCOUNT NUMBER: 005513429

ACCOUNT NAME: TCRS - PUTMAN STRUCTURED EQUITY

DESCRIPTION	BOOK VALUE LOCAL/USD	MARKET VALUE LOCAL/USD	ACCRUED INCOME LOCAL/USD	USD UNREALIZED GAIN/LOSS DUE TO MARKET/CURRENCY TOTAL	MARKET VALUE % OF COUNTRY PORTFOLIO
COUNTRY: FRANCE (EUR)					
FX RATE: 0.82843200					
BUILDING	6,263,159.75	7,631,152.75	17,114.22	1,651,303.91	
	7,632,622.65	9,211,562.04	20,658.57	(72,364.52)	7.55%
				1,578,939.39	0.71%
UTILITIES - TELECOMMUNICATIONS	4,075,829.33	4,426,753.76	8,868.29	423,600.77	
	5,152,609.76	5,343,533.05	10,704.91	(232,677.48)	4.38%
				190,923.29	0.41%
BANKS & OTHER FINANCIAL SERVICES	67,521,443.52	89,015,796.03	233,232.42	25,945,825.98	
	77,820,154.61	107,450,938.90	281,534.76	3,684,958.31	88.07%
				29,630,784.29	8.25%
TOTAL:FRANCE (EUR)	77,860,432.60	101,073,702.54	259,214.93	28,020,730.66	
	90,605,387.02	122,006,033.99	312,898.24	3,379,916.31	100.00%
				31,400,646.97	9.37%

**SUMMARY OF INVESTMENTS BY
COUNTRY/ASSET CLASS - Unreconciled**
FOR COMPOSITE GROUP 005513429

CLOSE OF DAY: 23-Sep-2005

ACCOUNT NUMBER: 005513429

ACCOUNT NAME: TCRS - PUTMAN STRUCTURED EQUITY

DESCRIPTION	BOOK VALUE LOCAL/USD	MARKET VALUE LOCAL/USD	ACCRUED INCOME LOCAL/USD	USD UNREALIZED GAIN/LOSS DUE TO MARKET/CURRENCY TOTAL	MARKET VALUE % OF COUNTRY PORTFOLIO
COUNTRY: GERMANY (EUR)					
FX RATE: 0.82843200					
DRUGS & HEALTH CARE PRODUCTS	3,067,051.85	3,356,711.60	2,305.80	349,648.19	
	3,651,655.96	4,051,885.50	2,783.33	50,581.35	4.83%
				400,229.54	0.31%
AUTOS, TIRES & RELATED PRODUCTS	1,364,708.28	2,079,586.00	2,568.41	862,928.67	
	1,734,522.08	2,510,267.60	3,100.33	(87,183.15)	3.00%
				775,745.52	0.19%
BUILDING	2,102,023.42	2,533,795.92	5,600.06	521,192.45	
	2,552,960.67	3,058,544.24	6,759.83	(15,608.88)	3.65%
				505,583.57	0.23%
CHEMICALS	2,198,409.05	2,757,160.00	3,492.25	674,468.09	
	2,829,826.98	3,328,166.95	4,215.49	(176,128.12)	3.97%
				498,339.97	0.26%
ELECTRICAL EQUIPMENT & ELECTRONICS	4,887,594.19	5,019,977.70	9,483.75	159,800.09	
	5,789,986.26	6,059,613.48	11,447.83	109,827.13	7.23%
				269,627.22	0.47%
RAILROAD EQUIPMENT	1,280,278.22	1,096,268.07	1,835.47	(222,118.59)	
	1,325,074.09	1,323,304.84	2,215.60	220,349.34	1.58%
				(1,769.25)	0.10%
UTILITIES - TELECOMMUNICATIONS	843,306.94	811,916.00	2,049.84	(37,891.99)	
	1,091,359.52	980,063.54	2,474.36	(73,403.99)	1.17%
				(111,295.98)	0.08%
UTILITIES - MISCELLANEOUS	9,850,242.46	14,746,409.01	28,099.35	5,910,161.06	
	11,694,739.65	17,800,385.60	33,918.72	195,484.89	21.24%
				6,105,645.95	1.37%
BANKS & OTHER FINANCIAL SERVICES	25,938,470.82	37,031,029.05	47,367.55	13,389,823.46	
	30,528,318.78	44,700,143.32	57,177.36	782,001.08	53.33%
				14,171,824.54	3.43%
PREFERRED STOCK			645.87		
			779.63		0.00%
					0.00%
TOTAL: GERMANY (EUR)					
	51,532,085.23	69,432,853.35	103,448.35	21,608,011.42	
	61,198,443.99	83,812,375.07	124,872.48	1,005,919.66	100.00%
				22,613,931.08	6.44%

**SUMMARY OF INVESTMENTS BY
COUNTRY/ASSET CLASS - Unreconciled**
FOR COMPOSITE GROUP 005513429

CLOSE OF DAY: 23-Sep-2005

Worldwide leader in securities processing

ACCOUNT NUMBER: 005513429

ACCOUNT NAME: TCRS - PUTMAN STRUCTURED EQUITY

DESCRIPTION	BOOK VALUE LOCAL/USD	MARKET VALUE LOCAL/USD	ACCRUED INCOME LOCAL/USD	USD UNREALIZED GAIN/LOSS DUE TO MARKET/CURRENCY TOTAL	MARKET VALUE % OF COUNTRY PORTFOLIO
COUNTRY: GREECE (EUR)					
FX RATE: 0.82843200					
UTILITIES - MISCELLANEOUS	1,640,008.71	1,607,437.52		(39,316.67)	
	2,003,422.95	1,940,337.32		(23,768.96)	100.00%
				(63,085.63)	0.15%
TOTAL:GREECE (EUR)	1,640,008.71	1,607,437.52		(39,316.67)	
	2,003,422.95	1,940,337.32		(23,768.96)	100.00%
				(63,085.63)	0.15%
COUNTRY: HONG KONG (HKD)					
FX RATE: 7.75830000					
BUILDING	81,150,479.31	99,926,870.00		2,420,168.17	
	10,422,329.64	12,879,995.61		37,497.80	30.24%
				2,457,665.97	0.99%
BANKS & OTHER FINANCIAL SERVICES	183,319,732.02	230,531,900.00	647,184.00	6,085,375.40	
	23,397,643.76	29,714,228.63	257,277.05	231,209.47	69.76%
				6,316,584.87	2.28%
TOTAL:HONG KONG (HKD)	264,470,211.33	330,458,770.00	647,184.00	8,505,543.57	
	33,819,973.40	42,594,224.24	257,277.05	268,707.27	100.00%
				8,774,250.84	3.27%
COUNTRY: IRELAND (EUR)					
FX RATE: 0.82843200					
BUILDING	3,332,155.00	5,168,458.85	30,440.35	2,216,601.79	
	3,680,698.01	6,238,845.02	36,744.54	341,545.22	36.69%
				2,558,147.01	0.48%
BANKS & OTHER FINANCIAL SERVICES	7,785,745.26	8,918,099.12	20,348.69	1,366,863.98	
	9,587,651.53	10,765,034.60	24,562.89	(189,480.91)	63.31%
				1,177,383.07	0.83%
TOTAL:IRELAND (EUR)	11,117,900.26	14,086,557.97	50,789.04	3,583,465.76	
	13,268,349.54	17,003,879.62	61,307.43	152,064.32	100.00%
				3,735,530.08	1.31%

Worldwide leader in securities processing

ACCOUNT NUMBER: 005513429

ACCOUNT NAME: TCRS - PUTMAN STRUCTURED EQUITY

DESCRIPTION	BOOK VALUE LOCAL/USD	MARKET VALUE LOCAL/USD	ACCRUED INCOME LOCAL/USD	USD UNREALIZED GAIN/LOSS DUE TO MARKET/CURRENCY TOTAL	MARKET VALUE % OF COUNTRY PORTFOLIO
COUNTRY: ITALY (EUR)					
FX RATE: 0.82843200					
BROADCASTING & PUBLISHING	5,661,268.33 6,456,256.81	6,395,081.69 7,719,501.06		885,785.87 377,458.38 1,263,244.25	19.70% 0.59%
UTILITIES - TELECOMMUNICATIONS	6,439,033.77 7,331,935.20	8,153,308.67 9,841,856.29		2,069,300.68 440,620.41 2,509,921.09	25.12% 0.76%
BANKS & OTHER FINANCIAL SERVICES	12,101,865.86 13,973,129.58	17,913,816.25 21,623,761.86		7,015,603.44 635,028.84 7,650,632.28	55.18% 1.66%
TOTAL: ITALY (EUR)	24,202,167.96 27,761,321.59	32,462,206.61 39,185,119.21		9,970,689.99 1,453,107.63 11,423,797.62	100.00% 3.01%

**SUMMARY OF INVESTMENTS BY
COUNTRY/ASSET CLASS - Unreconciled**
FOR COMPOSITE GROUP 005513429

CLOSE OF DAY: 23-Sep-2005

Worldwide leader in securities processing

ACCOUNT NUMBER: 005513429

ACCOUNT NAME: TCRS - PUTMAN STRUCTURED EQUITY

DESCRIPTION	BOOK VALUE LOCAL/USD	MARKET VALUE LOCAL/USD	ACCRUED INCOME LOCAL/USD	USD UNREALIZED GAIN/LOSS DUE TO MARKET/CURRENCY TOTAL	MARKET VALUE % OF COUNTRY PORTFOLIO
COUNTRY: JAPAN (JPY)					
FX RATE: 112.14000000					
APPAREL & SHOES	301,967,853.00	310,224,000.00		73,623.57	
	2,697,945.43	2,766,399.14		(5,169.86)	0.92%
				68,453.71	0.21%
DRUGS & HEALTH CARE PRODUCTS	407,968,901.00	498,032,000.00	2,640,000.00	803,130.90	
	3,704,071.17	4,441,162.84	23,542.00	(66,039.23)	1.48%
				737,091.67	0.34%
FOODS	51,158,603.00	50,400,000.00		(6,764.79)	
	470,489.44	449,438.20		(14,286.45)	0.15%
				(21,051.24)	0.03%
AUTOS, TIRES & RELATED PRODUCTS	459,200,893.00	569,050,000.00		979,571.13	
	4,129,460.60	5,074,460.50		(34,571.23)	1.70%
				944,999.90	0.39%
BUILDING	543,285,152.00	636,690,000.00		832,930.69	
	4,938,784.15	5,677,635.10		(94,079.74)	1.90%
				738,850.95	0.44%
CHEMICALS	408,155,548.00	371,850,000.00		(323,751.99)	
	3,464,247.56	3,315,944.36		175,448.79	1.11%
				(148,303.20)	0.25%
MACHINERY	502,498,325.00	784,281,000.00		2,512,775.77	
	4,685,273.82	6,993,766.72		(204,282.87)	2.34%
				2,308,492.90	0.54%
MISC. CAPITAL GOODS & SVCS. CO	261,838,229.00	258,000,000.00		(34,227.12)	
	2,502,781.98	2,300,695.56		(167,859.30)	0.77%
				(202,086.42)	0.18%
ELECTRICAL EQUIPMENT & ELECTRONICS	3,449,340,217.00	3,904,676,000.00		4,060,422.53	
	30,368,321.97	34,819,654.00		390,909.50	11.64%
				4,451,332.03	2.67%
RAILROAD EQUIPMENT	1,253,113,022.00	1,642,195,000.00		3,469,609.22	
	11,392,267.75	14,644,150.17		(217,726.80)	4.90%
				3,251,882.42	1.13%
UTILITIES - GAS	839,246,443.00	982,734,000.00		1,279,539.48	
	7,352,641.22	8,763,456.39		131,275.69	2.93%
				1,410,815.17	0.67%
UTILITIES - TELECOMMUNICATIONS	1,725,728,100.00	1,455,303,000.00		(2,411,495.45)	
	15,157,844.24	12,977,554.84		231,206.05	4.34%
				(2,180,289.40)	1.00%
UTILITIES - MISCELLANEOUS	527,872,257.00	641,628,000.00		1,014,408.27	
	4,940,556.49	5,721,669.34		(233,295.42)	1.91%
				781,112.85	0.44%

EXHIBIT B

THE TENNESSEE CONSOLIDATED RETIREMENT SYSTEM INVESTMENT POLICY

ORGANIZATIONAL STRUCTURE AND GENERAL OVERVIEW

The Tennessee Consolidated Retirement System (TCRS) represents the pension plan for state employees, teachers, higher education employees, local government employees, and employees of other entities authorized to participate in TCRS. TCRS was established by state statute in 1972. The governing statute is found in Tennessee Code Annotated 8-34-101, et seq.

Final authority for investing and reinvesting the assets of the Tennessee Consolidated Retirement System (System) is vested in the System's Board of Trustees (Board). T.C.A., Section 8-37-104(a). Implementation of investment policy established by the Board is hereby delegated to the State Treasurer (Treasurer) who shall put such policy into effect. T.C.A., Section 8-37-110. Assets shall be invested subject to all the terms, conditions, limitations, and restrictions imposed by the laws of the State of Tennessee upon domestic life insurance companies in the making and disposing of their investments or as otherwise provided by state law. T.C.A., Section 8-37-104(a). If the Board has issued other directions further limiting such investments, the assets shall be invested according to the criteria established by the Board.

Mission Statement

The mission of the Tennessee Consolidated Retirement System is to provide superior services to constituents in a cost-effective manner through qualified personnel while maintaining the highest ethical standards. The assets of TCRS are invested solely in the interest of plan participants and beneficiaries for the exclusive purpose of providing the statutory retirement and other benefits to plan participants and beneficiaries.

Legal Counsel

The State Attorney General or an assistant designated by him shall be the legal advisor to the Board in all matters. In all cases where the interests of the System require additional counsel to the Attorney General, the Chairman of the Board, with approval of the Attorney General, is authorized to employ such additional counsel. T.C.A., Section 8-34-308.

Investment Advisory Council

The Treasurer shall nominate, with the advice and consent of the Board, an Investment Advisory Council (Council), consisting of up to seven persons who have experience as investment portfolio managers, economists, or investment advisors to work with the Treasurer's investment staff, T.C.A., Section 8-37-108, to advise the Board on investment policy, T.C.A., Section 8-37-109.

The Council will assist the Treasurer, Chief Investment Officer and Investment Staff by providing advice and recommendations on the most appropriate short, intermediate and long-

term investment strategy. At each meeting of the Council, the previous meetings' recommendations will be reviewed and reinforced or changed as agreed upon by the Council Members.

Chief Investment Officer (CIO)

The Chief Investment Officer for the System's assets will assume the necessary authority, as granted by the Treasurer, to effectively manage the Investment Staff. He shall report to and consult with the Council in formal, scheduled meetings and informally as needed.

The Chief Investment Officer shall:

1. Have executive responsibility and authority, as delegated by the Treasurer, for the management of the assets of the System in keeping with such guidelines and policies as approved by the Board and such applicable laws of the State of Tennessee.
2. Prepare and submit reports, as required, to the Treasurer, the Council, and the Board to document investment activities.
3. Report to and consult with the Treasurer on administrative, organizational and investment activities.
4. Work with the Council on development and implementation of an appropriate investment strategy.
5. Work jointly with the Council to develop long-term economic and investment projections.
6. File with the Treasurer a disclosure statement as prescribed by the Treasurer each year in December.

Investment Staff

The Treasurer, in consultation with the Chief Investment Officer, shall maintain an Investment Staff to effectively manage all assets of the System. The Treasurer may delegate to the Chief Investment Officer and such staff the power to invest and reinvest the System's assets within criteria established by the Board. T.C.A., Section 8-37-105. Investment Staff will perform their duties in compliance with the Association for Investment Management and Research Code of Ethics and Standards of Professional Conduct. Each member of the Investment Staff shall file with the Treasurer a disclosure statement as prescribed by the Treasurer each year in December.

Each member of the investment staff shall act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims.

Reporting

The Investment Staff shall provide a detailed written review of investment activity at Board and Council meetings. This shall include a review of the purchases and sales over the period under

review, a portfolio summary, a review of current investment policy, and other reports as requested.

Internal Controls

The CIO shall maintain a system of internal controls to safeguard the assets of the System. Such controls shall include, but not limited to, assurance that financial assets are held in trust at a third party custodial financial institution, and that an independent consultant or master custodial financial institution calculate investment performance independent from the internal records of TCRS.

The Treasury department's accounting division and internal audit division shall report to an executive management employee other than the CIO.

Brokerage Firms

All brokerage firms (for stock and all other securities) shall be selected for use according to their financial standing, execution capabilities, underwriting capabilities, research capabilities, price and other services provided to the System.

Consultants

The Treasurer in conjunction with the CIO may engage the services of investment consultants as necessary to manage the assets of TCRS. The Board delegates to the Treasurer the responsibility to determine the duties and responsibilities of the consultant with such enumerated in a contractual agreement.

External Managers and Advisors

The Treasurer in conjunction with the CIO may engage the services of investment professionals to actively manage the international stock portfolio and the real estate portfolio. The Board delegates to the Treasurer the responsibility to determine the duties and responsibilities of investment professionals with such enumerated in a contractual agreement.

Master Custodian Financial Institution

The Treasurer in conjunction with the CIO may engage the services of a master custodian financial institution to hold in trust the financial assets of TCRS and to process trade transactions. The Board delegates to the Treasurer the responsibility to determine the duties and responsibilities of the master custodian financial institution with such enumerated in contractual agreement.

Proxy Voting

It is the general policy to vote proxies in a manner which will provide the best ultimate value to the shareholders of that entity. The Chief Investment Officer will develop and maintain a proxy voting policy, and review such policy annually with the Council. In voting all proxies, the investment staff will:

1. Analyze the economic consequences of the options presented to them as shareholders, and select the option most likely to protect and enhance the value of the System's assets.
2. Document the votes (and other actions and decisions) along with the reasons for taking the action chosen. This includes maintaining a record of all attempts to solicit proxies, from outside or inside the organization.
3. The Chief Investment Officer should consult with the Council on any particularly difficult proxy questions.

Commission Dollar Arrangements

The Treasurer is hereby given approval and is authorized to obtain investment research services permitted by Section 28(e) which amends the Securities and Exchange Laws of 1934 through use of commission dollars; provided, however, that best execution of all trades shall continue to be the overriding principle in determining the broker to be used in executing any transaction. The Treasurer shall annually disclose to the Board significant provisions of each commission dollar arrangement existing on June 30 of each year. The Treasurer shall, within a reasonable period of time, disclose to the Board any new commission dollar arrangement entered into as well as other information requested. Only those research goods and services which directly enhance the investment decision-making process and which do not have a non-investment capability shall be eligible for procurement through commission dollar arrangements. Goods and services specifically permitted include performance evaluation services, securities pricing services, quotation and trading information services and analytical databases as well as technical publications which directly enhance the investment decision-making process.

No good or service may be procured through commission dollar arrangements if such good or service benefits an employee in an individual capacity. Goods and services specifically prohibited from procurement through use of commission dollar arrangements include direct telephone lines to brokerage firms, personal computers or other office equipment, payment of travel related expenses and payment of cost of attending seminars, classes or other investment training activities. The Treasurer shall develop and implement a structured review and approval process to ensure that commission dollar arrangements entered into pursuant to this policy comply with the provisions stated herein. Any commission dollar arrangement in which commission commitment is made by the System shall be evidenced by a written agreement which specifies the nature and extent of the commission commitment as well as other significant provisions of the arrangement.

INVESTMENT POLICY AND OBJECTIVES

Preservation of principal value is the primary objective in managing the System's assets. Within acceptable risk levels, achieving a superior return (both income and appreciation) is the second objective for the Fund. A third objective is to provide the liquidity needed by the System to pay beneficiaries in a timely manner. These objectives are adopted to seek actuarial soundness of the plan in order to meet benefit obligations.

Preservation of Principal Value

Recognizing that potential investment return is proportionate to the amount of risk taken, investment in high quality assets shall be favored over those more risky investments that, if successful, can pay a higher return. In addition to limiting investments to higher quality financial assets, a diversified portfolio shall be maintained to further reduce exposure to loss. Although the risk parameters imposed by state law shall be followed, the Investment Staff may choose to further restrict the financial criteria, depending on the overall state of the economy and upon advice of the Council.

Investment Return

The System's assets should be managed actively to attain, within acceptable risk limitations, a return on assets that will meet beneficiary payments as required. Return shall include both current income and capital appreciation. The investments of the System shall be diversified so as to minimize the risk of large losses, unless under particular circumstances it is clearly prudent not to do so. The total return objective of the system shall be to exceed the returns as set out under the "Performance Measurement" section of this policy.

Liquidity for System Beneficiary Payment

It appears that contributions to the Fund will be sufficient to meet beneficiary payments for some time. Continual review of the System should be conducted to assure that investments providing income for liquidity needs are purchased as the System matures.

Asset Allocation

Allocation Range

The chief investment officer is permitted to make investments within the following ranges:

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>
Domestic Stocks	20%	50%
Domestic Bonds	20%	60%
Inflation Indexed Bonds	0%	15%
Short-term Securities	0%	10%
International Bonds	0%	10%
International Stocks	5%	25%
Real Estate	0%	5%

Rebalancing

Should an asset class fall below the minimum percentage or exceed the maximum percentage, the chief investment officer is expected to rebalance the portfolio to bring the asset class within the minimum / maximum range within 90 days.

Performance Measurement

To provide the Investment Staff and the Board with guidance as to investment performance expectations, the following performance measurement standards are established. These standards are to act as guides in determining whether the Fund and individual asset classes are achieving their long term goals, both in relationship to the System's peer group of other public funds and the marketplace in general. In recognition of the System's long-term perspective, these standards are to be measured through use of a five-year rolling average. This serves to reinforce the System's bias against investment decisions designed to show short-term gain at the expense of long term performance.

Total Fund Performance Measurement Standards

This set of standards is designed to measure the performance of the Fund in total, including the impact that state law, investment policy restrictions and asset allocation decisions may have on the performance of the Fund. Given the current state law, investment policy and asset allocation parameters, the following standards are considered reasonable expectations for the total Fund:

The Fund's overall annualized total return should exceed the return available from a policy of investing in an index fund of the following:

<u>Asset Class</u>	<u>Index</u>	<u>Weight</u>
Domestic Stocks	S&P 1500	35%
Domestic Bonds	Citigroup Broad Investment Grade Index	35%
Inflation Indexed Bonds	Citigroup TIPS Index	5%
Short-term Securities	91-Day U.S. Treasury Bills	3%
International Bonds	Citigroup Non-U.S. G-5 Govt. Bond Index	3%
International Stocks	MSCI EAFE	15%
Real Estate	Russell NCREIF Property Index	<u>4%</u>
	TOTAL	100%

The Total Fund should rank in the upper 50 percentile compared to the results of other similarly managed public fund portfolios measured over rolling five-year periods.

Asset Class Performance Measurement Standards

Each asset class is currently actively managed by the System. Since an alternative to active management exists in the form of index funds, it is proper to measure the System's performance against the most appropriate index for each asset class to determine the "value added" over time by active management. As asset classes change, indices should be reviewed to ensure that proper comparisons are being made. The above indices provide for appropriate comparison to the System's current asset classes.

INVESTMENT CRITERIA

Both the Board and the Investment Staff are aware of the desirability of investing within the State of Tennessee whenever quality, risk, diversification and potential return are equal to or greater than that available on like investments outside the state. The Investment Staff should encourage and be receptive to Tennessee financial proposals. However, both the Board and the Investment Staff are aware of the fiduciary responsibility of investing pension assets and should not make any investment based solely on its location in Tennessee when quality, risk, diversification, or potential return are sacrificed. T.C.A., Section 35-3-117(b). Further, the Board will not approve investment proposals designed to benefit special political, social, or economic subgroups within or external to the System's beneficiaries unless they clearly meet all fiduciary standards of investing.

In determining compliance with the percentage limitations of this policy, the assets of the System shall be valued at their market value. Accordingly, an investment may be made on any given day provided such investment does not cause any applicable limitation prescribed in this policy to be exceeded on such day. T.C.A., Section 8-37-104(b).

Common, Preferred Stock and Convertible Bonds

Growth is important to the System to attain a return that will allow for greater participant benefits and/or lower state funding requirements. Equity investments will be used to seek this growth through potential dividend increases and capital appreciation. The System will limit its investment in common and preferred stock to 75% of the System's total assets. T.C.A., Section 8-37-104(a)(1). Convertible bonds also will be counted as an equity investment and included in this limitation. The System's stock portfolio shall be actively managed by the Investment Staff to obtain a superior return. The stock of smaller, emerging companies, including new issues, should be an integral part of the total portfolio. Not more than 4.99% of the outstanding shares of any one issuer shall be purchased. Any stock purchase which does not meet the statutory definition for domestic life insurance companies shall be considered purchased under the basket clause as permitted by statute.

Notes, Bonds, and Mortgages

Public issues of notes and bonds shall make up the majority of fixed income investments. It will be necessary to actively manage this sector of the portfolio in times of volatile interest rate swings to either shorten the average maturity to protect principal value or lengthen maturities to lock up a long-term stream of income. The only issues subject for purchase are investment Grade Bonds (four highest ratings) as rated by one of the recognized rating agencies. The total sum invested in notes and bonds and other fixed income securities exceeding one (1) year shall not exceed seventy-five percent (75%) of the total funds of the System. T.C.A., Section 8-37-104(a)(2).

Private Placements

Any debt issues purchased which do not have an active secondary market shall be thoroughly researched from a credit standpoint and shall be viewed by the Investment Staff as having the credit quality equivalent of an AA rating on a publicly traded issue. Not more than 15% of the total fixed income portfolio shall be placed in private placements. Private placements may be considered for purchase when they yield a return over equivalent quality public issues that are sufficient to compensate for their lack of marketability. Except in the case of notes purchased by the System pursuant to standby note purchase agreements wherein the System receives a market rate of return, tax exempt securities of any state are not considered a prudent investment for the System.

Stock Options

Call options may be written on stock positions owned by the System. Options should not be written on more than 10% of the total stock portfolio. Options may not be purchased but positions can be closed out. Rules and Regulations of the State of Tennessee, Chapter 0780-1-32.

Bond Futures

The Investment Staff may write call options on U.S. Treasury bond futures, provided such options are not written on more than 10% of the total assets in the System's portfolio. T.C.A., Section 56-3-303(a)(15).

Domestic Stock Index Futures

The System may purchase or sell domestic stock index futures contracts for the purpose of making asset allocation changes in a more efficient and cost effective manner, and to improve liquidity. Such futures contracts shall be subject to the following terms and conditions:

1. The Investment Staff will not enter into futures transactions for the purpose of speculative leveraging. Speculative leveraging is defined as buying financial futures where the amount of the contract obligation is an amount greater than the market value of the System's cash and short-term securities.
2. The total amount of the System's financial futures contract obligation should not exceed five percent (5%) of the market value of the System's total assets.
3. The sum total of the domestic equity portfolio together with the value of the stock index futures contract obligation should be within the asset allocation range for domestic equity securities. While stock index futures contracts are outstanding, the Investment Staff shall maintain a comparison of the System's equity asset allocation against its invested position including futures contracts.
4. The System may use cash and obligations of the U.S. government or any of its agencies to meet the variation margin requirement.

5. The only stock indexes upon which financial futures contracts may be written are as follows: S&P 600 Index, S&P 500 Index, S&P Midcap 400, and Russell 2000 Index.
6. Futures transactions will be conducted with only a few of the highest quality domestic money center banks and domestic brokerage firms. The criteria to be used in selecting such banks and brokerage firms should include, but should not be limited to, their experience and expertise in the financial futures market.
7. A transaction record shall be maintained which contains the following:
 - a) The amount of stock index futures contracts purchased and the reason therefor.
 - b) The amount of stock index futures contracts sold and the reason therefor.
8. The Investment Staff shall submit a quarterly financial futures report to the Board. This report will describe with specificity the financial futures transactions during the previous quarter. The report shall summarize the investment strategies employed during the period reviewed and the proposed strategy for the present quarter. Each report shall list the banks and brokerage firms authorized to conduct financial futures transactions with the System. T.C.A., Section 8-37-104(a)(7).

Short-term Investments

All monies waiting to be placed in a more permanent investment should be actively managed to obtain the best return available. Yield should be sacrificed for safety in short-term investments, and thus only the highest quality short-term debt issues should be purchased. These investments can include both publicly and privately negotiated short-term borrowing agreements. Commercial paper should be rated in the highest tier by all rating agencies which rate the paper. Rating modifiers (+, -) should not be considered when determining the highest rated tier. A minimum of two ratings is required. Commercial paper cannot be purchased if a rating agency has the commercial paper on a negative credit watch. Commercial paper cannot have a remaining maturity of more than 180 days from the date of purchase. The maximum amount of a specific corporation's commercial paper that can be purchased is \$100 million, but commercial paper maturing on the next business day shall not apply to this limit. A credit analysis report shall be prepared on a corporation before the corporation's commercial paper can be acquired. A credit analysis report should include a company profile, business description, financial profile, rating information, strengths and opportunities, weaknesses and threats, and an outlook and recommendation.

Securities Lending

Both debt and equity securities may be loaned for a fee to a select few of the highest quality securities firms and banks. Loans shall be limited so that the total amount of the securities lent does not exceed 30% of the market value of the total assets in the System's portfolio. Eligible collateral shall be required for each loan. For purposes of this provision, eligible collateral means:

1. Bonds, notes, and treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies;

2. Obligations guaranteed as to principal and interest by the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Student Loan Marketing Association and other United States government sponsored corporations or enterprises; and
3. Cash.

Securities received as collateral shall have a market value of at least 102% of the market value of the security loaned. Cash received as collateral shall have a value of at least 100% of the market value of the security loaned. Collateral should be closely monitored. Securities collateral should be marked to market each business day so that the aggregate market value of the collateral allocated to all then outstanding loans to a single security firm or bank equals 102% of the market value of such loans and the interest accrued thereon. If at any time the aggregate market value of the securities collateral allocated to all then outstanding loans to a single security firm or bank is less than 100% of the market value of such loans, more collateral should be requested. Cash received as collateral may be invested by or on behalf of the System in any investment instrument in which the System's assets may be directly invested. Such cash may also be invested in short-term investment funds provided the portfolio of such funds contains only those investment instruments in which the System's assets may be directly invested. The Treasurer, through securities lending agreements, may further restrict the collateral requirement outlined in this policy. Securities lending agreements entered into shall be reviewed, commented upon, and approved as to form and legality by the Attorney General and Reporter. T.C.A., Section 8-37-104(a)(6).

Standby Note Purchase Agreement

The System may enter into contracts to serve as a standby note purchaser for the Tennessee State School Bond Authority, the Tennessee State Funding Board and the Tennessee Local Development Authority provided said contracts contain the following provisions:

1. The System receives an annual commission representing a fair market value fee, adjusted for any additional cost incurred by the state agency due to the System serving as the standby note purchaser.
2. If called upon to purchase such notes, the System receives a market rate of return exceeding the prime rate.

T.C.A., Section 8-37-104(a)(8).

International Investments

An amount not to exceed 25% of the System's total assets may be invested in the international markets of those countries included in the Morgan Stanley Capital International (MSCI) EAFE index for developed markets excluding any emerging market countries. Such securities must be actively traded in a public market and be of the same kinds, classes and investment grades otherwise eligible for investment. T.C.A., Section 8-37-104(a)(3).

Foreign Currency Hedging

The System may engage in forward contracts to hedge the foreign currency exposure of the fund under the following guidelines:

1. The overall strategy will be a tactical defense designed to reduce risk and protect the System's international portfolio from a strong dollar.
2. The foreign currency exposure will be hedged by selling and purchasing currency using only forward contracts.
3. The allowable currencies for hedging purposes are limited to the currencies of those countries authorized pursuant to this policy.
4. Portfolio currencies may be hedged no more than 80% of international portfolio exposure for any given currency based on market value.
5. Portfolio currencies may be sold for U.S. dollars only and not for another portfolio currency.
6. Hedging will be conducted through the System's custodial bank and a few of the highest quality money center banks and brokerage firms. T.C.A., Section 8-37-104(a)(5).

Canadian Investments

The System may purchase Canadian securities which are actively traded in a public market provided they are substantially of the same kinds, classes and investment grades as those otherwise eligible for investment. Such investments shall not be subject to the restriction imposed on international investments.

Real Estate

An amount not to exceed 5% of the market value of the total TCRS portfolio may be invested in real estate. The real estate investment portfolio of TCRS may include investments in direct real estate investments, commingled funds, group trusts, real estate operating companies ("REOCs"), partnerships, corporations, limited liability companies ("LLCs") or other collective investment vehicles or pooled investments as well as REIT's (private or public). At the time of acquisition, the minimum investment size for an individual property is \$5.0 million, unless the investment is part of an accumulation strategy of multiple properties in a given market or sub-market. The maximum investment size in any one property shall be limited to one-half of one percent (0.5%) of the market value of TCRS' total assets.

TCRS shall invest primarily in substantially leased (i.e., 80% or greater leased at time of acquisition) institutional quality, well-located assets in the traditional property types: office, apartment, retail, and industrial. To avoid concentrations within certain property types and to ensure prudent diversification over the longer time periods, no investment may be made which would cause, at the time of acquisition, the market value of TCRS holdings in any single traditional property type to exceed 2.0% of the market value of TCRS' total assets.

TCRS shall limit real estate investments such that at the time of acquisition, no more than 1.0% of the market value of TCRS' total assets shall be invested in any single Standard Metropolitan Statistical Area ("SMSA"). All investments shall be limited to properties located in the United States. In any event, TCRS cannot acquire real estate located in the State of Tennessee unless such acquisition is in the shares or interests of a regulated investment company, mutual fund, common trust fund, investment partnership, real estate investment trust, or similar organizations or vehicles which are commingled and investment determinations as to which real estate assets to purchase or acquire are made by the investment sponsor or investment manager, or persons other than TCRS.

Real estate investment advisors (Advisor) are to be utilized by TCRS to locate, evaluate, acquire, manage and dispose of real estate investments. TCRS shall limit its exposure to any single Advisor to mitigate potential advisor or firm specific risk. No Advisor, at the time of an acquisition, shall be permitted to asset manage more than 2.0% of the market value of TCRS' total assets.

TCRS may own such investments in its own name or, to the extent permitted by law, through title holding entities, and may transfer real estate properties from direct ownership to a title holding entity, or from a title holding entity to direct ownership, during the course of the holding period of the investment.

The Director of Real Estate shall develop comprehensive real estate investment guidelines (Real Estate Guidelines) that shall be approved by the Chief Investment Officer and the Treasurer.

Transactions to acquire and dispose of direct real estate properties are subject to approval of the investment committee of the Board of Trustees. The investment committee will not consider any acquisitions or dispositions until the Investment Advisory Council has reviewed the transaction and submitted its advice.

T.C.A, Section 8-37-104(a)(9).

THE BOARD OF TRUSTEES OF THE TENNESSEE CONSOLIDATED
RETIREMENT SYSTEM ADOPTED THIS REVISED POLICY AT ITS BOARD
MEETING ON JUNE 4, 2004.

DALE SIMS, CHAIRMAN
BOARD OF TRUSTEES
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

EXHIBIT F

(WILL BE PUTNAM'S UPDATED CERTIFICATE OF INSURANCE)

EXHIBIT G

Pursuant to Section E.4 of the Contract between the State of Tennessee, Tennessee Consolidated Retirement System and The Putnam Advisory Company, LLC, each party has outlined below the individuals from whom the other party is authorized to accept any notices, requests, demands, or other advice which may be given under the Contract. This Exhibit shall be valid until revoked or amended by further written notice. The parties shall only be entitled to rely on notices, requests, demands, or other advice given by such individuals.

AUTHORIZED INDIVIDUALS OF RETIREMENT SYSTEM

<u>Authorized Individual</u>	<u>Position</u>
Roy Wellington	Portfolio Manager
Michael Keeler	Director of Equities
Tom Milne	Chief Investment Officer
Sharon Harris	Operations Supervisor
Jenny King	Equity Trader
Diane Willocks	Equity Trader
Jamie Lynn Thompson	Executive Assistant
Ed Hennessee	Assistant Treasurer

The individuals listed above, auditors employed by the state of Tennessee, and the following individuals are authorized to make inquiries concerning the Retirement System's Account. Inquiries include requests for Account balances, inquiries concerning Account transactions, and requests for information concerning statements and confirmations. Such requests may be written or verbal.

<u>Authorized Individual</u>	<u>Position</u>
Kim Morrow	Director of Accounting
Connie Gibson	Assistant Director of Accounting
Karen Baumgartel	Operations Supervisor
Rick DuBray	Assistant to the Treasurer

Date Effective

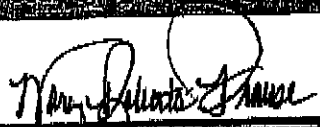
Dale Sims, State Treasurer & Chair
of the Board of Trustees

AUTHORIZED INDIVIDUALS OF PUTNAM

<u>Authorized Individual</u>	<u>Position</u>
Anthony W. Regan	Senior Managing Director
Carolyn C. Hughes	SVP, Portfolio Advisor
Justin M. Scott	Chief Investment Officer
John K. Storkerson	SVP, Portfolio Manager
Thomas J. Rosalanko	SVP, Portfolio Advisor
Mark D. Pollard	SVP, Senior Portfolio Manager
Omid Kamshad	MD, Senior Portfolio Manager
Joanne B. MacPhail-Walsh	AVP, Analyst
Jeffrey L. Gould	SVP, Senior Account Manager
Peter B. King	VP, Account Manager
Cheryl Mittler	AVP, Client Service Associate
Janet Smith	VP, Institutional Accounting
Lisa Iagatta Sullivan	Manager, Institutional Accounting
Michael Stein	VP, Custody Operations
Steve Marx	VP, Custody Operations
Eric H. Sorensen	CIO, Managing Director
Geir Lode	SVP, Portfolio Manager
Frederick J. Copper	SVP, Portfolio Manager

Date Effective

(Signature and Title of Authorized Officer)

309.01-025		FA-01-14304-01	
Tennessee Treasury Department		TN Consolidated Retirement System	
The Putnam Advisory Company, LLC (formerly, Putnam Advisory Company, Inc.)		<input checked="" type="checkbox"/> V- 04-3543039 (formerly, 04-8187127) <input type="checkbox"/> C-	
The Contractor supervises and manages the Tennessee Consolidated Retirement System's EAFE equity investment portfolio. The money for these services comes from the investment earnings of the Tennessee Consolidated Retirement System.			
November 1, 2000		October 31, 2005	
309.01	88	829	50 <input type="checkbox"/> on STARS
2001			\$1,259,467.00 \$1,259,467.00
2002			\$1,889,200.00 \$1,889,200.00
2003			\$1,889,200.00 \$1,889,200.00
2004			\$1,963,066.00 \$1,963,066.00
2005			\$2,000,000.00 \$2,000,000.00
2006			\$666,667.00 \$666,667.00
			\$9,667,600.00 \$9,667,600.00
Mary Roberts-Krause, General Counsel 10 th Floor, Andrew Jackson Building Nashville, Tennessee 37243-0230 (615) 741-8202, extension 104		Pursuant to T.C.A., Section 9-8-113, I, M. D. Gostz, Jr., Commissioner of Finance and Administration, do hereby certify that there is a balance in the appropriation from which this obligation is required to be paid that is not otherwise encumbered to pay obligations previously incurred.	
		RECEIVED JUL 24 PM 1:49 JUL 29 2003 COMPTROLLER'S OFFICE OFFICE OF MANAGEMENT SERVICES	
	October 31, 2003	October 31, 2005	
FY: 2001	\$1,259,467.00		
FY: 2002	\$1,889,200.00		
FY: 2003	\$1,889,200.00		
FY: 2004	\$629,733.00	\$1,333,333.00	
FY: 2005		\$2,000,000.00	
FY: 2006		\$666,667.00	
	\$5,667,600.00	\$4,000,000.00	

070100

CONTRACT SUMMARY SHEET

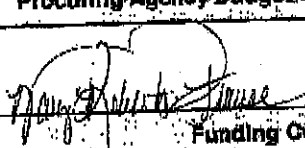
Contract Number	FA- 01-14304-00	State Agency	Tennessee Treasury Department
RFS Number	309.01-025	Division	Tennessee Consolidated Retirement System
Contractor		Vendor ID Number	
Putnam Advisory Company, Inc.		<input checked="" type="checkbox"/> V— <input type="checkbox"/> C—	04-6187127

Service Description

The Contractor will supervise and manage the Tennessee Consolidated Retirement System's European equity investment portfolio. The money from these services will come from the investment earnings of the Tennessee Consolidated Retirement System.

Contract Begin Date		Contract End Date	
November 1, 2000		October 31, 2003	

Allocation Code	Cost Center	Object Code	Fund	Grant	Grant Code	Subgrant Code
309.01	88	829	50	<input type="checkbox"/> on STARS		
FY	State Funds	Federal Funds	Interdepartmental Funds	Other Funding	Total Contract Amount (including All Amendments)	
2001				\$1,259,467.00	\$1,259,467.00	
2002				\$1,889,200.00	\$1,889,200.00	
2003				\$1,889,200.00	\$1,889,200.00	
2004				\$629,733.00	\$629,733.00	
Total				\$5,667,600.00	\$5,667,600.00	

<input type="checkbox"/>	Fiscal Year Funding is Strictly Limited	CFDA Number	
<input checked="" type="checkbox"/>	Contractor is on STARS	State Fiscal Contact	
<input checked="" type="checkbox"/>	Current Form W-9 On File With Accounts	Name	Mary Roberts-Krause, General Counsel
<input type="checkbox"/>	OR Form W-9 Attached	Address	10 th Floor, Andrew Jackson Building
		Phone	Nashville, Tennessee 37243-0280
			(615) 741-8202, extension 333
<input checked="" type="checkbox"/>	Service Provider Registered with F&A	Procuring Agency Budget Officer Approval Signature	
<input type="checkbox"/>	Contractor is a SUBRECIPIENT (as defined by OMB Circular A-133)	 Funding Certification	

COMPLETE FOR ALL AMENDMENTS (only)		
	Base Contract & Prior Amendments	This Amendment ONLY
Contract End Date		
FY		
FY		
FY		
FY		
FY		
Total	00660000	

Pursuant to T.C.A., Section 9-6-113, I, C. Warren Neel, Commissioner of Finance and Administration, do hereby certify that there is a balance in the appropriation from which this obligation is required to be paid that is not otherwise encumbered to pay obligations previously incurred.

OCR Use Only

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TO ACCOUNTS

NOV 17 2000